

Message Text

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ACTION SS-30

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P 271535Z NOV 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 8080

C O N F I D E N T I A L SECTION 1 OF 2 NEW DELHI 13782

EXDIS

E.O. 11652: GDS

TAGS: EFIN, IN, US

SUBJECT: RUPEES

SUMMARY: IN WHICH THE AMBASSADOR MAKES A PERSUASIVE
CASE FOR TWO-WAY MGI. END SUMMARY.

1. IS THERE ANYBODY BACK HOME WHO CAN STAND SOME GOOD
NEWS? I ASK BECAUSE IF YOU ARE ANYTHING THERE THE WAY
WE ARE, YOUR NERVOUS SYSTEMS HAVE BEEN PRETTY MUCH
REDUCED TO THE ROLE OF SHOCK ABSORBERS. IT IS CALLED
BEHAVIORAL CONDITIONING IN PROFESSOR SKINNER'S
LABORATORIES IN CAMBRIDGE, AND GIVEN THE WAY THINGS
USUALLY ARE IT IS NOT SUCH A BAD IDEA. EVEN SO THERE
REMAINS SOMETHING THAT MIGHT BE TERMED EXTERNAL REALITY,
AND ONCE IN A WHILE THIS TURNS OUT TO BE VERY MUCH MORE
PLEASANT THAN ANYONE EXPECTS. IT BEGINS TO APPEAR THAT
THIS IS THE WAY THE RUPEE SETTLEMENT IS COMING OUT.

2. IN ROUND TERMS, WE WERE TOLD TO GET ONE BILLION
DOLLARS. WE HAVE GOT ONE BILLION TWO HUNDRED MILLION
DOLLARS. MOREOVER, WE HAVE NOT DONE IT BY BLACKJACKING
ANYONE. AS WE HAVE PUT FORTH FIRST ONE PROPOSAL AND THEN
AHOTHER RAISING OUR TAKE, THE INDIANS HAVE LISTENED
TO OUR ARGUMENT, AND AFTER A WEEK AGREED.

3. ITEM. LAST FRIDAY A SMALL GROUP OF MP'S -- THE FAMI-
LIAR ANTI-AMERICAN COMBINATION HERE, MARXIAN
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COMMUNISTS ON THE LEFT, HINDU FUNDAMENTALISTS ON THE

RIGHT -- DEMANDED OF THE FINANCE MINISTER THAT HE FREEZE OUR RUPEE HOLDINGS PENDING A FINAL SETTLEMENT. NOTE THAT TPS USUAL DEMAND WAS THAT THE DEBT BE REPUDIATED.

THIS WAS MUCH Milder AND INVOLVED THEIR KNOWING, OR GUESSING, THAT SOME INTERIM ARRANGEMENT WAS BEING MADE THAT IN FACT WOULD INCREASE THE AMERICAN TAKE OVER AND ABOVE THE AMOUNT STIPULATED IN THE AGREEMENT. MINISTER CHAVAN SAID HE WOULDN'T DO THAT, NOR WOULD HE DISCLOSE DETAILS OF THE NEGOTIATION AS A FINAL AGREEMENT WAS IMMINENT. THE FACT -- A MINOR ONE-- IS THAT THE DRAFT PROVIDES FOR THE ESTABLISHMENT OF A "TRANSITION ACCOUNT" WHICH WILL PROVIDE FOR ALL THE AMERICAN EXPENSES INCURRED BETWEEN THE TIME OF INITIALING AND NEXT JULY 1, PLUS THE COST OF ANY CONSTRUCTION OR SIMILAR CONTRACTS NOW IN EFFECT OR ENTERED INTO DURING THE INTERIM PERIOD. WE ESTIMATE THIS PROVISION TO BE WORTH CONSIDERABLY MORE THAN THE TEN MILLION DOLLARS YOU INDICATE AS YOUR ASSESSMENT. NOT A BIG SUM. NOT A SMALL ONE EITHER.

3. ITEM. WE NOW HOLD SOME ONE HUNDRED FIFTY MILLION DOLLARS OF DOOLEY LOANS MADE TO INDO-AMERICAN BUSINESS ENTERPRISES OUT OF OUR ORIGINAL RUPEE HOLDINGS. INITIALLY WE ASSUMED THAT THESE SUMS WOULD NOT BE INCLUDED IN ANY OVERALL TOTAL RETAINED BY THE UNITED STATES, WHICH IS TO SAY THAT EITHER WE WOULD REDUCE OUR FIRST TIME TAKE BY THE AMOUNT EVENTUALLY TO BE PAID BACK IN LOANS, OR ELSE WE WOULD TURN THE PORTFOLIO OVER TO THE INDIANS, AND LET THEM COLLECT. WE DECIDED TO DO NEITHER. WE COULDN'T REDUCE OUR BILLION FIRST TAKE OWING TO THE NATURE OF STATUTES COVERING THEM, I.E., THE PRESIDENT DID NOT HAVE THE POWER TO GRANT SUCH FUNDS TO A FOREIGN GOVERNMENT. NOR DID WE WISH TO TURN OVER THE PORTFOLIO, AS WE JUDGED THAT THE AMERICAN FIRMS INVOLVED MIGHT UNDERSTANDABLY BECOME DISTURBED TO FIND THEMSELVES IN DEBT TO A GOVERNMENT NOT THEIR OWN. ACCORDINGLY WE STATED WE MUST RETAIN OWNERSHIP OF THE PORTFOLIO, IN EXCESS OF OUR BASIC ONE BILLION.

4. ITEMS. WHERE WE WERE SCHEDULED TO RECEIVE SOME FIFTY
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MILLION DOLLARS AS CONVERSIONS FROM RUPEES OVER THE NEXT FORTY YEARS, WE ARE NOW TO RECEIVE SIXTY-FOUR MILLION OVER TEN YEARS. SIXTY-FOUR IN TEN IS THE EQUIVALENT OF UPWARDS OF ONE HUNDRED FIFTY IN FORTY. BESIDES, IT IS OURS SOONER. OUR ORIGINAL INSTRUCTIONS ASKED US TO OBTAIN RUPEE FINANCING FOR ONE YEAR OF AID TO NEPAL. WE HAVE OBTAINED THE RUPEE EQUIVALENT OF ROUGHLY FIVE YEARS OF AID TO NEPAL. IN ADDITION WE HAVE THE RIGHT TO SPEND RUPEES FOR

NEPALESE TRAINING IN INDIA, AND TO PAY ALL THE
RUPEE EXPENSES OF THE AMERICAN EMBASSY IN KATHMANDU.
FURTHER, WE HAVE THE RIGHT TO USE UP TO TWENTY-FIVE
MILLION DOLLARS WORTH OF RUPEES AGAINST PURCHASES BY
THE UNITED STATES GOVERNMENT OF ONE HUNDRED MILLION
DOLLARS OF INDIAN GOODS, BOTH SUMS TO BE ADJUSTED UPWARDS
TO ACCORD WITH PRICE INCREASES.
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ACTION SS-30

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 8081

C O N F I D E N T I A L SECTION 2 OF 2 NEW DELHI 13782

EXDIS

5. IN ROUND TERMS, IN THE AFTERMATH OF THIS SETTLEMENT, WE
SHALL HAVE THE USE OF SOME NINE BILLION RUPEES, RATHER THAN
THE SEVEN BILLION FIVE HUNDRED MILLION RUPEES WE WERE
ASKED TO OBTAIN. SOME OF THESE RUPEES WILL BE CONVERTED
DIRECTLY TO DOLLARS, ALMOST ALL THE REST WILL BE SPENT IN

LIEU OF DOLLARS. WE DO NOT QUITE, AS I UNDER-
STAND, HAVE THE RESOURCES OF THE FORD FOUNDATION. BUT
THEN WHO WOULD LET A POOR IRISHMAN GET HOLD OF AS MUCH
MONEY AS MAC BUNDY? BUT TRANSLATED INTO DOLLARS, WE
HAVE ENOUGH TO RUN THE WHOLE OF THE DEPARTMENT OF
STATE, ONE HUNDRED TWENTY ODD EMBASSIES, AN EQUIVALENT
NUMBER OF CONSULATES, OMNIPRESENT AID MISSIONS, AMERICAN
SCHOOLS, WOMEN'S CLUBS, COMMISSARIES, THE FRANKLIN,
JEFFERSON AND MADISON SUITES AND ASSORTED REFINED EATERIES
HIGH UP AT FOGGY BOTTOM FOR TWO WHOLE YEARS. I HONESTLY
FEAR THAT OUT THIS WAY IT WILL LAST US FOR THE REST OF THE
CENTURY. FRANKLY THAT IS TOO LONG, BUT THAT IS THE
AGREEMENT WE HAVE GOT.

6. I AM MORE THAN HALF SERIOUS WHEN I SAY IT IS TOO
MUCH. THE DECISION TO SEEK A SETTLEMENT OF ONE BILLION

DOLLARS WAS MADE BY THE PRESIDENT AND THE SECRETARY LAST JUNE, FOLLOWING AN EARLIER CONVERSATION IN PARIS BETWEEN THE SECRETARY AND MYSELF. MY PERSONAL REPEAT PERSONAL INSTRUCTIONS WERE TO SEEK THE RUPEE EQUIVALENT OF ONE BILLION DOLLARS IN A DIRECT MANNER, NOT TO BE ASSOCIATED WITH HAGGLING OR BARGAINING. THIS WAS OUR MONEY. THERE WAS NOTHING TO BARGAIN ABOUT WITH RESPECT TO OUR WILLINGNESS TO REDUCE IT IN AMOUNT; ACCORDINGLY, THE NEGOTIATIONS
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WERE PROPOSED TO THE PRIME MINISTER WITH ME SAYING THAT WE WERE WILLING TO REDUCE OUR HOLDINGS TO ONE BILLION EQUIVALENT, AND THAT THIS SUM WAS NECESSARILY NOT SUBJECT TO DISCUSSION. THE INDIAN GOVERNMENT WAS GIVEN THE CHOICE TO ACCEPT THIS SUM OR TO DECLINE TO OPEN NEGOTIATIONS. THEY DID THE FORMER, AND NEVER ONCE QUESTIONED THE SUM. SIMILARLY, WHEN THIS SUM ROSE PERFORCE BY ANOTHER TWO HUNDRED MILLION DOLLARS EQUIVALENT, THEY DID NOT DESIST.

7. ALL THAT REMAINS IS MAINTENANCE OF VALUE. I HAVE EVERY REASON TO BELIEVE THAT THE INDIANS ACCEPT SECRETARY VOLCKER'S FIVE HUNDRED MILLION, TEN YEAR SOLUTION. HOWEVER, WE SEEM HUNG UP -- NOT WITH THEM BUT WITH THE DEPARTMENT -- ON THIS QUESTION OF WHETHER MOV SHOULD BE ONE WAY OR TWO WAY. OF COURSE IT SHOULD BE TWO WAY. FOR ONE THING -- ALTHOUGH THIS HAS LITTLE TO DO WITH IT -- THE EXISTING LOAN AGREEMENTS ARE EITHER DENOMINATED IN RUPEES, IN WHICH EVENT THERE IS NO CHANGE REGARDLESS OF EXCHANGE RATES, OR IN DOLLARS IN WHICH THE RUPEE EQUIVALENT GOES UP OR DOWN WITH VARYING EXCHANGE RATES. FOR SOME OF OUR LOANS THERE IS A ONE YEAR REPEAT ONE YEAR ONE WAY MOV TO PRECLUDE THE POSSIBILITY OF SUDDEN REPAYMENT TO AVOID AN IMPENDING DEVALUATION. BUT THIS WAS -- I AM SORRY IF I PRESUME TOO MUCH -- AN OFFENSIVE PROVISION. ONE DOES NOT ENTER CONTRACTS WITH GOVERNMENTS THAT ARE NOT PRESUMED TO CONDUCT THEMSELVES IN THE MANNER OF SOVEREIGN ENTITIES AS AGAINST OVER THE COUNTER TRADERS. THE ESSENCE OF THE MATTER IS THIS: THE PRESIDENT DESIRES A POLITICAL SETTLEMENT OF THE ISSUE WHICH WILL PUT IT BEHIND US AS AN OBSTACLE TO DECENT, RELAXED RELATIONS WITH INDIA IN A PERIOD WHEN WE ARE NO LONGER GIVING THEM MUCH IN THE WAY OF HELP. THE PREAMBLE TO OUR AGREEMENT STATES THAT IT IS A "MUTUAL DESIRE" OF OUR GOVERNMENTS "TO BUILD A MATURE ECONOMIC RELATIONSHIP BETWEEN EQUALS". A ONE WAY MOV PROVISION WOULD COMPRISE THE VERY OPPOSITE. IT IS THE KIND OF THING YOU ASKED FOR WHEN YOU HAD A FLOTILLA LYING OFFSHORE AND THE MAHARAJA'S SON SAFELY IN CUSTODY IN HARROW. IT WOULD BE AN UNEQUAL AGREEMENT OF PRECISELY THE SORT THAT ASIAN NATIONS HATE AND ABHOR

THAT THEY ARE ASHAMED OF HAVING
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SIGNED IN THE NINETEENTH CENTURY. THE UNITED STATES GOT
PAINFULLY CAUGHT IN THE WRINGER OUT THIS WAY PRIMARILY
BECAUSE WE DID NOT SEE THAT FOR ALL OUR ALTRUISM WE WERE
RAPIDLY ASSUMING THE ROLE OF BY-GONE COLONIAL POWERS.
THIS IS PRECISELY WHAT THE NIXON DOCTRINE IS NOT ABOUT.
I CANNOT BELIEVE THE SECRETARY OR THE PRESIDENT WOULD HAVE
ANY OTHER VIEW. WE CAN TAKE IT TO THEM IF NECESSARY, BUT
SURELY THE DEPARTMENT'S WISDOM WILL SEE THAT IT IS NOT.
LET US HAVE A TWO WAY MAINTENANCE OF VALUE CLAUSE, AS
BEFITS EQUALS. ALAS WE ALL KNOW BLOODY WELL THAT WE ARE
NOT ECONOMIC EQUALS, THAT THE CLAUSE WILL ONLY EVER OPERATE IN
ONE DIRECTION. BUT THAT IS THE TRAGEDY OF INDIA. WE
ARE TRYING IN THIS AGREEMENT GENTLY TO DISENGAGE OUR-
SELVES FROM THIS TRAGEDY. I ASK YOU, GENTLEMEN, TO THINK
ABOUT THIS, AND SEE IF YOU DO NOT AGREE.

8. WHEN YOU HAVE COME TO THE OBVIOUS CONCLUSION ON
THAT SCORE, I ASK YOU TO CAST YOUR GAZE OVER THE
RESULTS OF SUCH A GENEROUS SETTLEMENT. WE LOOK FORWARD,
FOR EXAMPLE, TO THE ANNUAL LABOR DEPARTMENT CONVENTION
CONVENING IN NEW DELHI NEXT WEEK. ANOTHER YEAR, ANOTHER
RUPEE ALLOCATION DISBURSED BY DINT OF IMAGINATION AND
ENERGY. GENERATIONS OF ATTACHES WILL FOLLOW IN THEIR
FOOTSTEPS.

9. WE WILL SHORTLY SEND YOU BY SEPTTEL OUR PROPOSED
LANGUAGE ON MOV REPRESENTING -- I DEVOUTLY HOPE -- THE
FINAL SUBSTANTIVE CHANGE IN AN AGREEMENT THE INDIANS
AND WE WOULD BOTH LIKE TO INITIAL TWO WEEKS FROM TODAY.

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